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Service Report 82

June 1966

Regional Grain Cooperatives 1964-65

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By Daniel H. McVey

Distribution of this report is limited to managers and directors of regional grain cooperatives, banks for cooperatives, extension marketing specialists and agricultural economics personnel in State colleges interested in grain marketing.

27th Annual Report

Farmer Cooperative Service

U.S. Department of Agriculture

UNITED STATES DEPARTMENT OF AGRICULTURE
FARMER COOPERATIVE SERVICE
WASHINGTON, D. C. 20250

Joseph G. Knapp, Administrator

The Farmer Cooperative Service conducts research studies and service activities of assistance to farmers in connection with cooperatives engaged in marketing farm products, purchasing farm supplies, and supplying business services. The work of the Service relates to problems of management, organization, policies, financing, merchandising, produce quality, costs, efficiency, and membership.

The Service publishes the results of such studies; confers and advises with officials of farmers' cooperatives; and works with educational agencies, cooperatives, and others in the dissemination of information relating to cooperative principles and practices.

REGIONAL GRAIN COOPERATIVES
1964-65

By
Daniel H. McVey
Grain Branch
Marketing Division

This report covers the financial condition and operating results of a group of regional grain cooperatives. It is the latest in the annual series of such reports started in 1938 and continued at the request of the cooperatives.

The report contains data for the 1964-65 season and shows some comparisons for the entire period 1938-39 through 1964-65. In addition, it points out some of the more current developments that have taken place since the end of the 1965 fiscal year.

Recent Activity

Regional grain cooperatives continue to make every effort to meet the demands of their members by conducting up-to-date grain marketing services at subterminal and terminal markets (figure 1).

They have rapidly expanded and modernized elevator facilities to handle and store current reserves and carryover stocks and to merchandise member associations' grain. Much of the recent activity has been at strategic river or lake or ocean harbor points to take advantage of cheaper water transportation and increase market potentials both at home and abroad.

With the increased production of grain and livestock in southern and southeastern States, cooperatives are giving more attention to installing processing and storage facilities in these areas to supply grain for feed and to furnish outlets for their own member production.

FIG. 1--LOCATION OF REGIONAL GRAIN MARKETING SERVICES AND THEIR SUB-TERMINAL AND TERMINAL ELEVATORS, 1966



Regionals have helped members improve their facilities and conduct more efficient grain marketing operations at the local level. Through the National Federation of Grain Cooperatives, grain research programs, advisory committees, radio and television programs, and other media, managements of the regionals are helping all grain farmers.

For several years, some regionals have co-sponsored accounting schools for the local elevator bookkeepers where students receive valuable training. Several also conduct management training conferences, directors' schools, and member relations clinics. The use of field men is increasing.

Improving Varieties.--Several regionals have installed milling and baking laboratories to learn more about the product they sell for their members and thus encourage farmers to grow the kind of grain that will sell best.

Many of these cooperatives are also working closely with grain improvement associations in developing new varieties so they can advise members on the best types of wheat and other grains to produce. By meeting exact milling specifications and feeding requirements, farmers can expect better returns and more use for their cash grain. Some regionals also pay premiums for approved varieties and protein content.

Expanded Services.--Some of them have been moving into the feed, seed, and farm supply field and others are expanding their services along these lines.

Some of the grain regionals have gone into processing. For example, since 1960, Farmers Union Grain Terminal Association (GTA), St. Paul, Minn., has acquired Honeymead Products, Mankato, Minn., the largest single soybean processing plant in the country. In addition to producing crude oil and meal, this plant has been further processing these products into finished liquid oil and industrial soy flour and grits. It has installed hydrogenation equipment and is processing hardened oil.

Arkansas Grain Corporation, Stuttgart, after 4 years' operation of its soybean extraction plant, has expanded storage facilities and added other equipment to further process soybean products. It now has in operation a second processing plant and terminal elevator at Helena on the Mississippi River. A large centralized regional, it has rapidly expanded local receiving and storage facilities and currently is operating at more than 60 locations. It has a packaging plant for salad and cooking oil under construction at New Orleans.

Farmers Union Cooperative Marketing Association (CMA), Kansas City, Mo., acquired the facilities of Dannen Mills, St. Joseph, Mo., in the late summer of 1963. These facilities include a modern soybean processing plant, a large terminal elevator on the Missouri River, three feed mills, a line of country elevators, and other facilities. It has added equipment to further process soybean oil.

Missouri Farmers Association, Columbia, has greatly expanded its soybean processing capacity at Mexico, Mo., with the addition of a new solvent extraction plant and has completed installing of equipment to further process soybean oil.

In the fall of 1965, the Farmers Grain Dealers Association, Des Moines, Iowa, merged with North Iowa Soybean Cooperative, Mason City, Iowa.

In 1961, GTA, acquired the facilities of the Minnesota Linseed Oil Company, one of the largest flaxseed processors in the country, thus providing its members who grow flax another market outlet. As an additional outlet for barley producers, GTA, in 1965, acquired Froedert Malting Company with facilities at Milwaukee, Wis., and Winona, Minn.

The Farmers Cooperative Commission Company, Hutchinson, Kans., continues to process its members' wheat into bulgur and started a program of marketing domestically as well as in foreign markets.

Export Expanding.--In another effort to improve the bargaining position of cooperative growers in the market place, 19 regionals joined together in 1958 and organized the Producers Export Company with offices in New York City. Membership grew to 22 regionals but has declined to 20 members (figure 2).

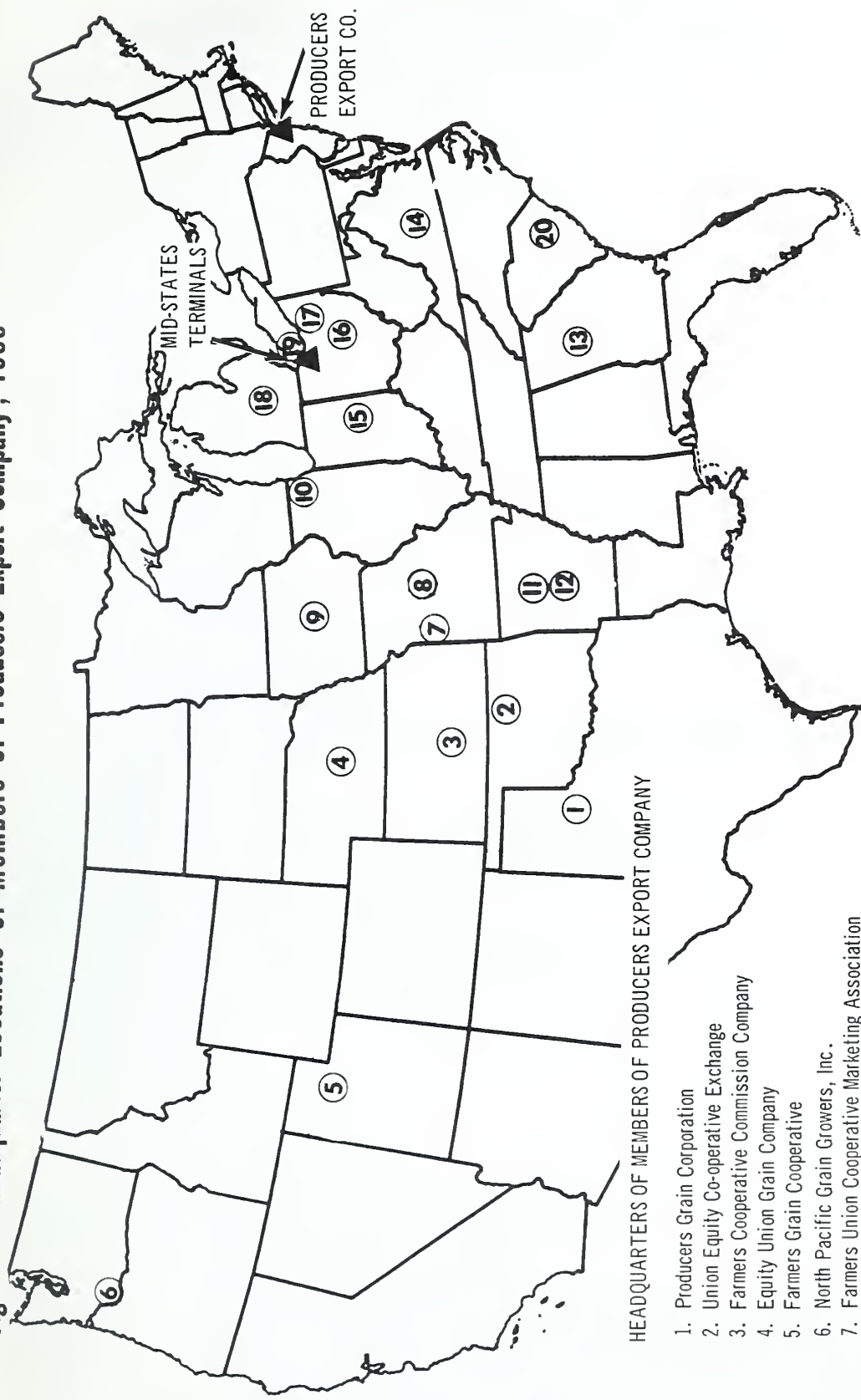
Several of the regionals, many of them members of Producers Export, operate terminal export elevators at strategic locations around the country.

North Pacific Grain Growers of Portland, Oreg., entered into a lease agreement with the Port Authority of Kalama, Wash., that built a large, fast-handling port elevator. The elevator was recently modified so it is now able to receive grain from the modern 100-ton hopper cars.

Producers Grain Corporation, Amarillo, Tex., on May 1, 1964, announced the acquisition of the Corpus Christi Port elevator with a capacity of $4\frac{1}{2}$ million bushels. This has been modernized and 2 million bushels of storage added.

Union Equity Cooperative Exchange, Enid, Okla., is now loading ships through its modern export elevator at Houston, Tex. Under construction is an additional 3 million bushels of storage capacity. This will bring its total storage capacity to some 62 million bushels, the largest capacity of the regionals. Four other regionals have in excess of 30 million bushels of storage capacity.

Fig. 2. - -Headquarter Locations of Members of Producers Export Company, 1966



HEADQUARTERS OF MEMBERS OF PRODUCERS EXPORT COMPANY

1. Producers Grain Corporation
2. Union Equity Co-operative Exchange
3. Farmers Cooperative Commission Company
4. Equity Union Grain Company
5. Farmers Grain Cooperative
6. North Pacific Grain Growers, Inc.
7. Farmers Union Cooperative Marketing Association
8. M. F. A. Grain and Feed Division
9. Farmers Grain Dealers Association of Iowa
10. Illinois Grain Corporation
11. Arkansas Grain Corporation
12. Arkansas Rice Growers Cooperative
13. Cotton Producers Association
14. Southern States Cooperative, Inc.
15. Indiana Grain Cooperative*
16. Farm Bureau Cooperative Association*
17. Ohio Farmers Grain Corporation*
18. Michigan Elevator Exchange*
19. Mid-States Terminal, Inc.
20. South Carolina Farm Bureau Marketing Association

* Also members of Mid-States Terminals

The Michigan Elevator Exchange Division of Michigan Farm Bureau Services, Lansing, has completed a 2.5 million bushel terminal at Saginaw accessible to water transportation and the St. Lawrence Seaway.

The four regional grain organizations in Ohio, Indiana, and Michigan organized Mid-States Terminals, Inc., with headquarters at Toledo, Ohio, to take advantage of new markets and cheaper transportation rates on the St. Lawrence Seaway. These members (all of them are also members of Producers Export) purchased a terminal elevator at Toledo, which was modernized and expanded. The capacity has been more than doubled in the last year. This will add greatly to the serviceability, increase volume, and lower unit operating costs.

Illinois Grain Corporation, Chicago, operates the 6.5 million bushel Gateway elevator in Chicago.

GTA exports tremendous quantities of grain through its large terminal at Superior, Wis.

Indiana Grain Cooperative, Indianapolis, has been exporting through facilities at Baltimore, Md.

The newest of the regional cooperatives, the South Carolina Farm Bureau Cooperative Marketing Association, Charleston, operates the Port Authority elevator in Charleston. Currently under construction is an additional 2 million bushels of capacity which will add much needed flexibility.

Currently, eight of the major regionals are studying the feasibility of a cooperative elevator in the New Orleans area.

Water Movement.--All of the regionals, with territory adjacent to the Missouri, Mississippi, and Illinois Rivers operate barge loading facilities and thus take advantage of lower transportation costs. Missouri Farmers Association, Columbia, recently acquired the facilities of Missouri Grain Company which included a barge loading elevator at Carruthersville, Mo.

Several of these regional cooperatives own or lease barges and a number of them own or lease a considerable number of the modern 100-ton hopper cars.

Coordinating Efforts.--There have been three mergers of regional cooperatives within the last 3 years. The Farmers Union Terminal Elevator, Denver, Colo., and Farmers Union Cooperative Elevator Association, Omaha, Nebr., merged with Farmers Union Cooperative Marketing Association, Kansas City, Mo. In Illinois, United Grain Company, Champaign merged with Illinois Grain Corporation, Chicago.

Other recent developments include the organization of Kansas City (Mo.) Terminal Elevator, with 4 million bushels of capacity jointly owned and operated by Missouri Farmers Association, (MFA) Columbia, and Equity Union Grain Company, Lincoln, Nebr. MFA, GTA, and Illinois Grain Corporation organized the St. Louis (Mo.) Grain Corporation, and acquired a 2.7 million bushel elevator in St. Louis which they jointly operate.

Soybean production is rapidly increasing in the rice producing area of southwest Louisiana and east Texas. Production is expected to increase tremendously in the next few years. A new cooperative, American Grain Association, Lake Charles, La., was organized in the fall of 1964 by producers to market their beans and assure them a voice in the market place. If production increases are attained, a facilities construction program must be undertaken.

Through actions such as these, the service to and the bargaining strength of cooperative elevator patrons are increased.

Scope of Report

Most of the information in this report concerns the 15 regional grain cooperatives on which we have data that began operating in 1938-39 and are still in operation. Ohio Equity Exchange, Lima, one of the original regionals, ceased to operate as a cooperative in 1964.

A number of other regional grain marketing cooperatives were organized after 1938. Currently there are seven of these organizations in operation. Included are Producers Export Co., Mid-States Terminals, Kansas City Terminal Elevator, and St. Louis Grain Corporation which are owned by the regionals. In addition, five large regional farm supply cooperatives operate grain marketing departments that perform the same functions as the grain regionals.

Figure 1 shows the location of the 22 regional grain cooperatives in operation in 1966, and their subterminal and terminal elevators, and the 5 other regional cooperatives with grain marketing departments. These regionals operate elevators at 128 market locations. These do not include commission offices where there are no cooperative facilities.

About 40 of these locations are export facilities or handle barge grain and are making significant savings for their members by using water transportation.

The data in this report have been revised to reflect the changes in the regional setup brought about by mergers and the elimination of Ohio Equity Exchange. To preserve the series of identical association, it was necessary to go back to 1938-39.

Thus, the annual reports before 1959 primarily cover data on those 15 associations on which we had records from 1938-39. Since 1959, the reports have been enlarged to include information on additional associations.

Part I shows the data on the 15 organizations and preserves the annual series. Part II contains information on 23 associations for which data are available for the last 7 years. The 23 associations include the 15 discussed in Part I.

Part I - 15 Regional Grain Cooperatives

The original 15 regional grain cooperatives have greatly expanded their storage capacity over the years, particularly since 1953, to meet the needs of members.

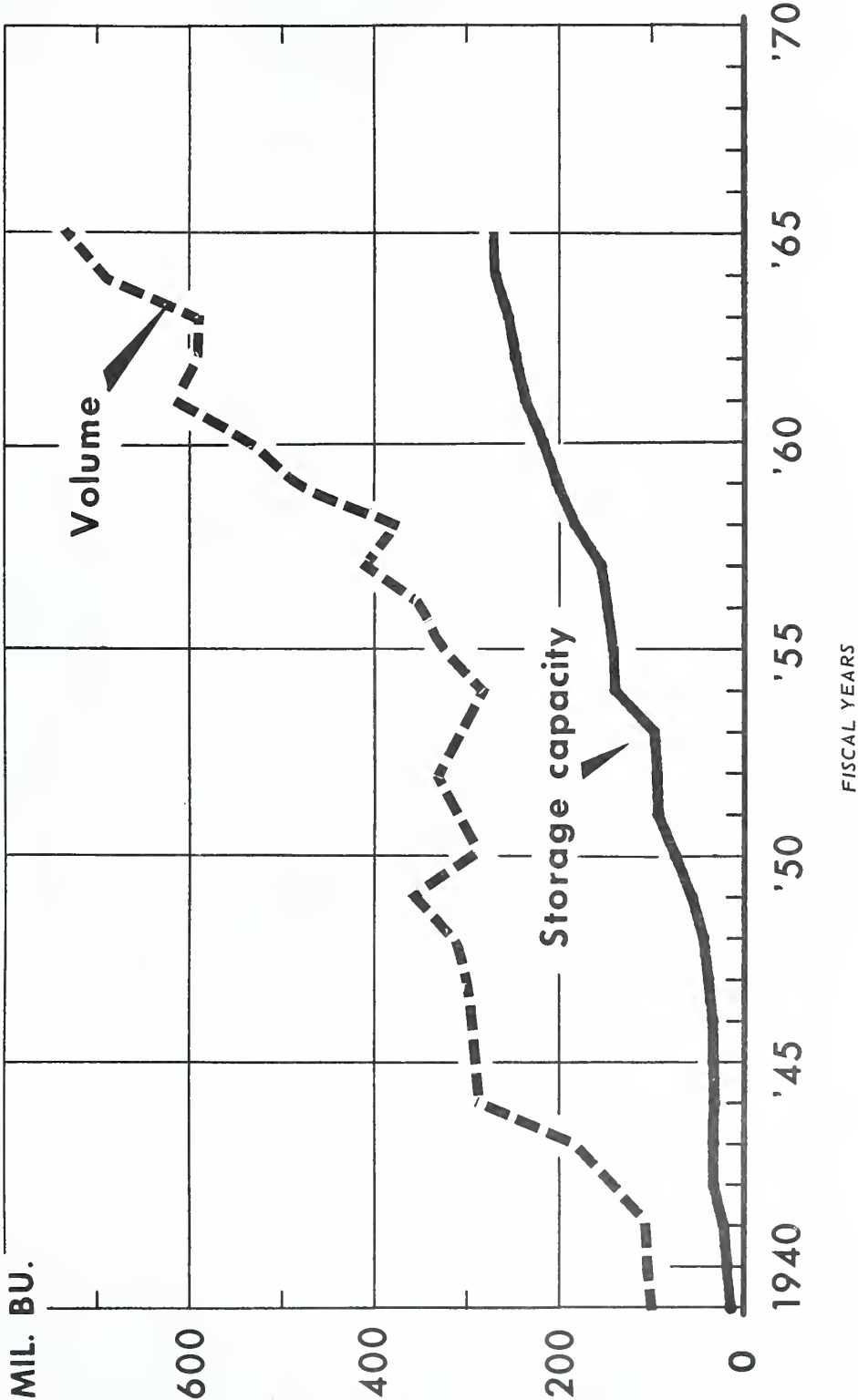
Figure 3 shows this expansion. By harvest time of 1966, the regionals will have slightly over 293 million bushels of storage compared with less than 15 million bushels in the late 1930's and 35.5 million bushels at the end of World War II.

The greatest expansion occurred in 1954--42 million bushels--but the 28-million bushel expansion in 1958 also stands out. Capacity has nearly tripled since 1953. Nearly all the space in use is owned, although some Port Authority elevators are operated on a long-term lease basis.

Since 1944, the combined volume of grain marketed by the 15 regionals has seldom been below 300 million bushels a year, with peaks of more than 360 million bushels in 1949 and for each of the last 10 years (figure 3). In 1964-65, volume was 727 million bushels--an increase of 5 percent over 1963-64 and 23 percent greater than in 1962-63. This is the sixth consecutive year that volume reached a half-billion bushels or more.

Figure 3

COMBINED VOLUME AND STORAGE CAPACITY OF 15 REGIONAL GRAIN COOPERATIVES



During the 27-year period beginning with 1938-39, these associations handled 9.7 billion bushels of grain. In the last 5 years alone of this period, volume amounted to more than 3.2 billion bushels or about one-third of the 27-year total. This does not take into account quantities of grain handled for the Commodity Credit Corporation (CCC).

Since these regional grain cooperatives began operations, total production of major grains has increased by more than 55 percent. The proportion leaving the farm has gone up even faster--in fact $2\frac{1}{2}$ times in the same period. Even so, the regionals have more than kept the pace. In their first 3 years of operation, they accounted for about 6.5 percent of the grain leaving the farm. Currently they account for about 16 percent. The proportion handled by cooperatives would be higher if CCC volume were included.

When taken as a group, these 15 cooperatives showed a net margin for each of the 27 years. Total margins generally moved upward, reaching nearly \$20 million in 1958-59, and were over \$19 million in each of the 2 following years. They have declined somewhat since. They amounted to slightly over \$10 million in 1964-65, or about 16 percent less than 1963-64, and 48 percent less than the peak year, 1958-59 (figure 4).

On a bushel basis, the peak margin of 4.44 cents was reached in 1954-55 and 1957-58 but has since declined. In the first few years, the combined annual margin was around \$1 million, reached \$10 million in 1946-47, and has been above that each year since 1953-54.

The net margins in 1964-65 were equal to a return of 9.2 percent on the book value of fixed assets and to 3.5 percent on all assets.

Figure 4

COMBINED NET MARGINS OF 15 REGIONAL GRAIN COOPERATIVES

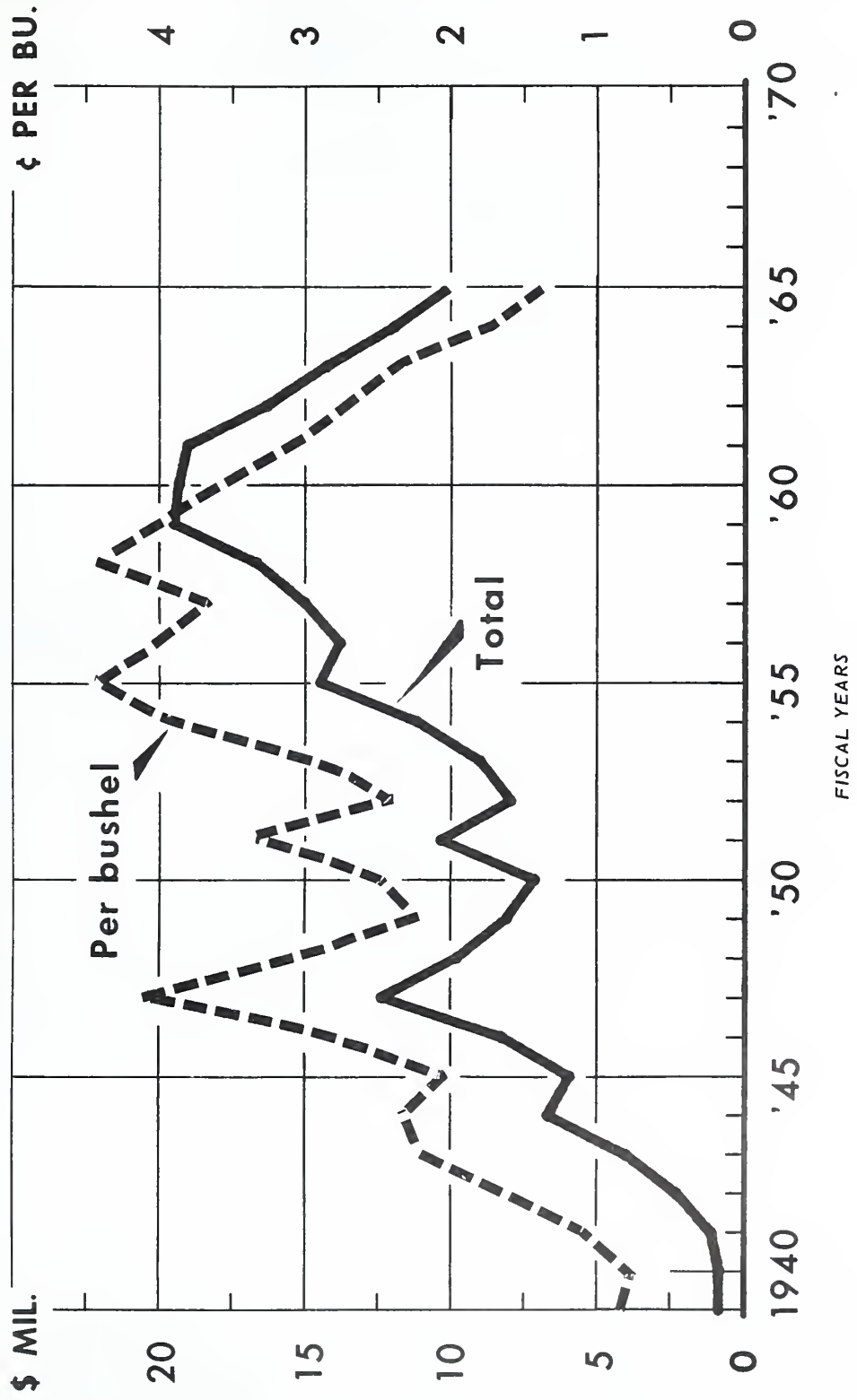


Table 1.--Total grain handled and combined net margins of 15 regional grain cooperatives, 1938-39, 1962-63, 1963-64, and 1964-65

Fiscal year	Volume of grain handled	Combined net margins	Net margins per bushel
	<u>1,000 bushels</u>	<u>\$1,000</u>	<u>Cents</u>
1938-39	100,039	857	0.86
1962-63	589,632	14,280	2.42
1963-64	692,732	11,956	1.73
1964-65	727,021	10,060	1.38

In the first 2 years of the period reported on, the net margin per bushel handled averaged about 1 cent. There was a gradual increase to around 4 cents a bushel in the period 1953-54 to 1959-60. Each year since 1957-58 has shown a decline. In 1964-65, the margin declined to 1.38 cents a bushel, or 20 percent below the year before and 43 percent less than 1962-63, reflecting intense competition, smaller volumes stored and handled, and reduced storage rates (table 1).

We can reasonably assume that such margins would not have been realized if handling, merchandising, and storage facilities had not been available (figure 5). Total net margins for the 27-year period were \$276.6 million, with 40 percent of the amount realized in the last 7 years of the period under study. The average margin per bushel for the 27-years was 2.86 cents.

As would be expected from the storage capacity and volume data, the combined balance sheet of these organizations changed greatly over this 27-year period. Current assets in 1939 were \$5.2 million; they showed almost continual annual growth and reached \$150 million in 1962, dropped back to nearly \$133 million in 1964 but increased to a record \$158 million in 1965 (figure 6 and table 2).

The net value of fixed assets was less than \$1 million in 1939 and didn't reach \$10 million until 1947. After 1947 there was a rapid build-up that reached a record \$109 million in 1965. The net increase since 1958 has been \$44 million. Rapid amortization of a number of facilities has held this value down.

Figure 5

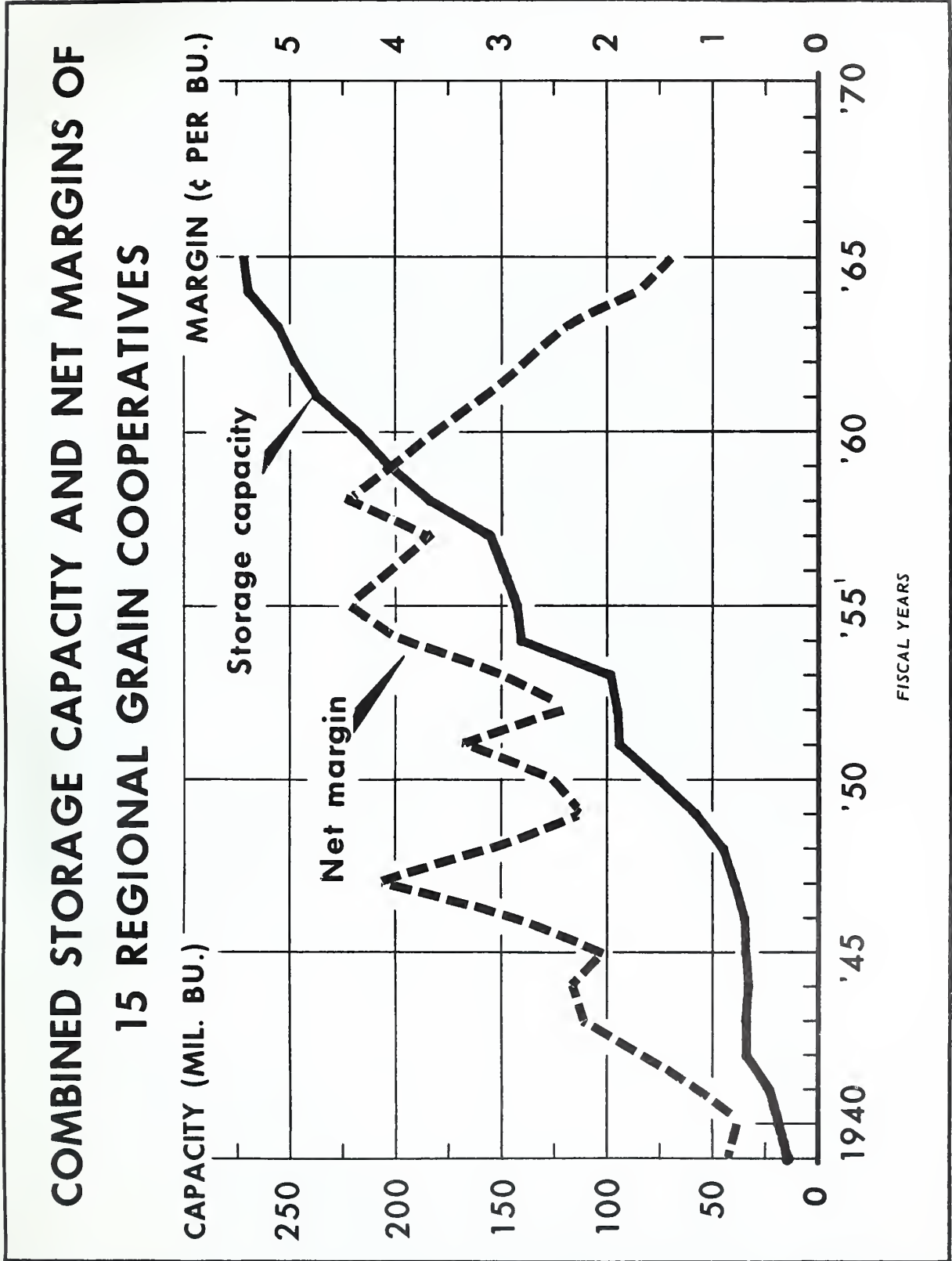


Table 2.--Consolidated balance sheet of 15 regional grain cooperatives at the close of marketing years 1938-39, 1962-63, 1963-64, and 1964-65 1/

Item	:	:	:	:
	: 1938-39	: 1962-63	: 1963-64	: 1964-65
	:	:	:	:
<u>\$1,000</u>				
<u>Assets</u>				
Current assets				
Cash	\$1,130	14,839	13,142	11,573
Inventory	1,110	52,038	64,195	76,305
Other	<u>2,963</u>	<u>63,047</u>	<u>55,222</u>	<u>70,451</u>
Total current assets	5,203	129,924	132,559	158,329
Fixed assets (net book value)	927	101,214	106,720	109,119
Other assets	<u>636</u>	<u>17,638</u>	<u>21,403</u>	<u>22,044</u>
Total assets	6,766	248,776	260,682	289,492
<u>Liabilities and member equities</u>				
Liabilities				
Current <u>2/</u>	2,437	57,483	68,868	83,140
Deferred	<u>1,081</u>	<u>43,857</u>	<u>43,539</u>	<u>62,180</u>
Total liabilities	3,518	101,340	112,407	145,320
Member equities				
Certified capital	1,632	94,988	98,625	104,437
Surplus and reserve	<u>1,616</u>	<u>52,448</u>	<u>49,650</u>	<u>39,735</u>
Total member equities	3,248	147,436	148,275	144,172
Total liabilities and member equities	6,766	248,776	260,682	289,492

1/ Closing dates of fiscal years of individual associations vary within the crop year from December 31 to August 31.

2/ Includes some patronage refunds and stock dividends soon to be paid to members.

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Total assets in 1939 were \$6.8 million. These showed a steady growth, reaching a new record of \$289.5 million in 1965, an increase of 11 percent over 1964. Six associations had assets in excess of \$17 million each in 1965.

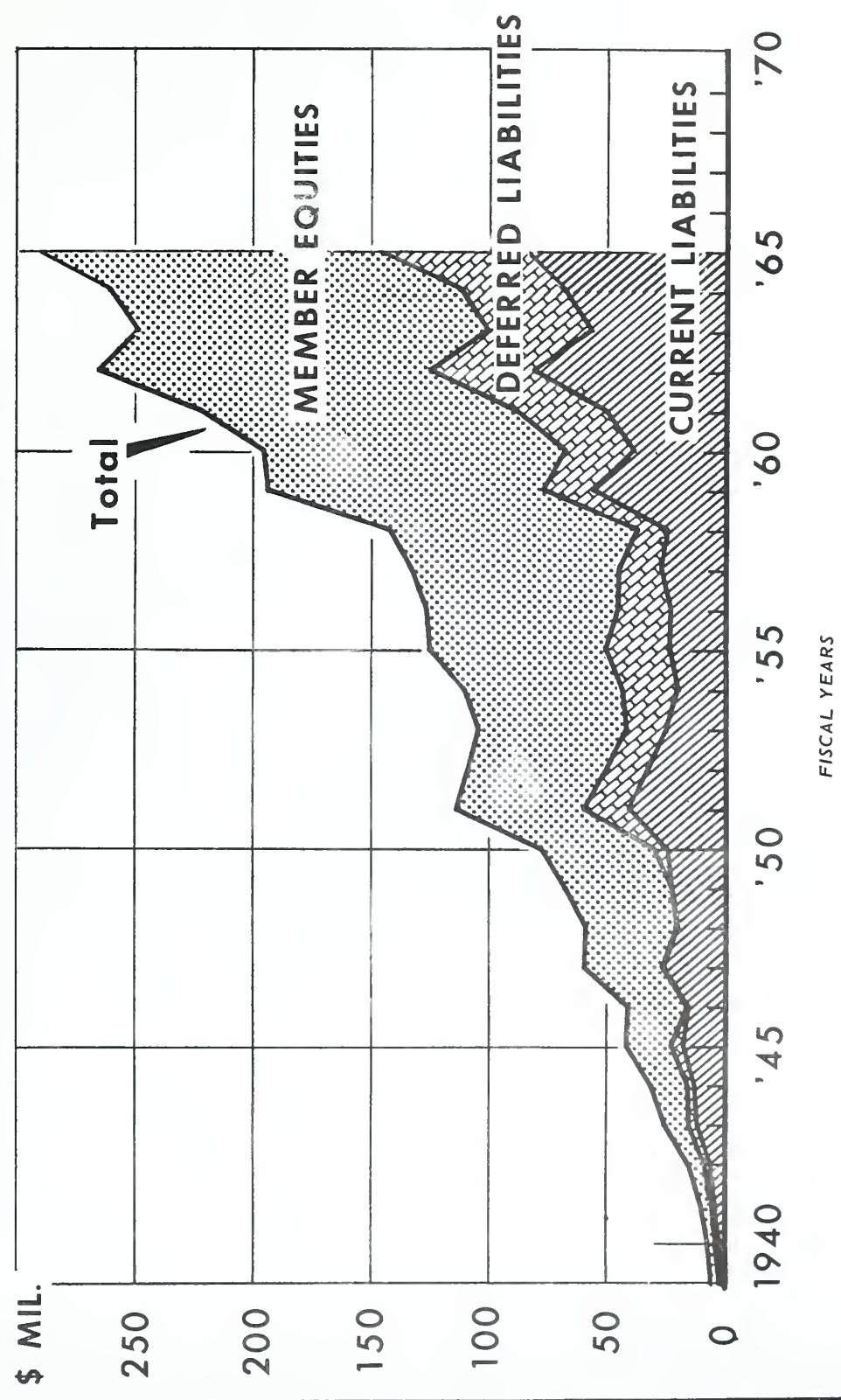
Although large amounts of capital have been used in recent years for expanding facilities, member equities in these 15 regionals continued to rise. In the 26 years from 1938-39 to 1963-64, member equities rose from \$3.2 million to \$148.3 million and showed an increase every year (table 2 and figure 7). In 1964-65, they declined a little to \$144.2 million, which was equal to 50 percent of the total asset value and was 32 percent greater than the value of fixed assets.

Annual working capital has shown a steady increase from the beginning and amounted to more than \$75 million in 1965. This may be compared to the \$2.7 million in 1939.

Last year total liabilities increased by nearly \$33 million, with the major increase in long-term liabilities. This item has fluctuated considerably over the years but has been higher in recent years due to the accelerated construction program. At the end of 1964-65, they amounted to \$62.2 million compared to \$1.1 million in 1938-39 (table 2 and figure 7). At the end of 1964-65, deferred liabilities were 57 percent of the book value of fixed assets.

Figure 7

COMBINED LIABILITIES AND MEMBER EQUITIES OF 15 REGIONAL GRAIN COOPERATIVES



Much of the recent increase in liabilities has been in the current category. They reached nearly \$57 million in 1958-59, declined to \$40 million in 1959-60, and increased to \$82 million in 1961-62. They dropped sharply in 1962-63 to about \$57 million, largely due to declines in inventory and other current assets. In 1965, they reached a record \$83 million or 57 percent of the total liabilities. Portions of these current liabilities were patronage dividend payments and interest on stock which had been declared but not disbursed.

Part II - 23 Regional Grain Cooperatives

Several regional grain cooperatives were organized after 1938 and some regional farm supply cooperatives added grain marketing departments. From 1958-59 through 1962-63, we carried data on 11 such organizations but, as mentioned earlier, there have been 3 mergers.

In this part of the report, therefore, data for the 8 remaining organizations have been combined with data on the original 15 associations to give a more complete picture of current cooperative regional grain marketing.

These 8 organizations have terminal or subterminal elevators at 66 locations with 74.5 million bushels of storage capacity.

This makes a total of 367 million bushels of storage capacity for the 23 organizations. Thus the capacity per association and per elevator is much greater for the 15 associations than for the 8.

Total assets of the 23 associations in 1965 were \$364 million, an increase of \$26 million from the year before. Inventories increased by more than \$6 million and other current assets increased nearly \$16 million. Fixed assets increased from \$134 million in 1964 to \$138 million in 1965 (table 3 and figure 8).

Figure 8

COMBINED ASSETS, LIABILITIES AND MEMBER EQUITIES OF 23 REGIONAL GRAIN COOPERATIVES, 1964-65

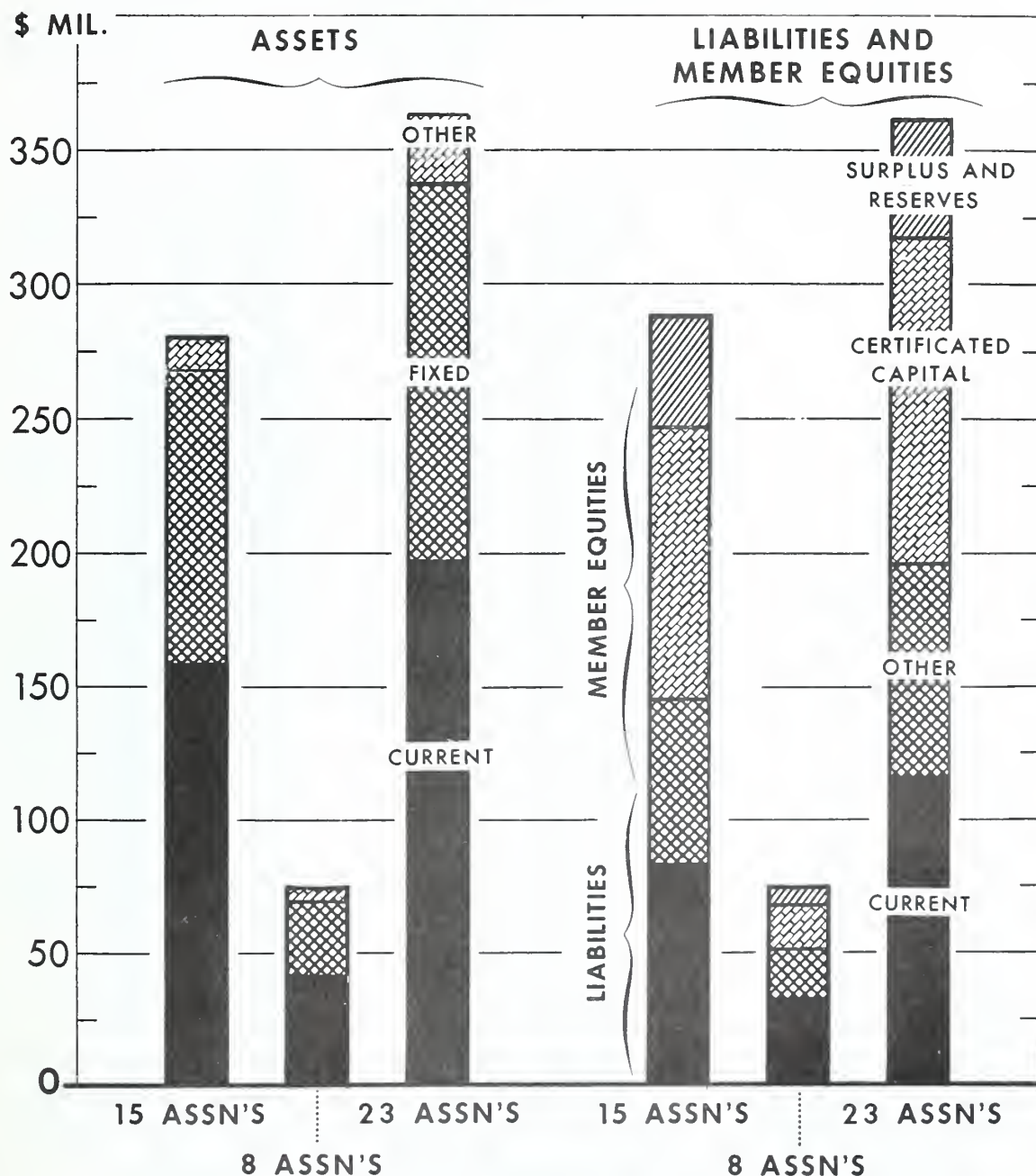
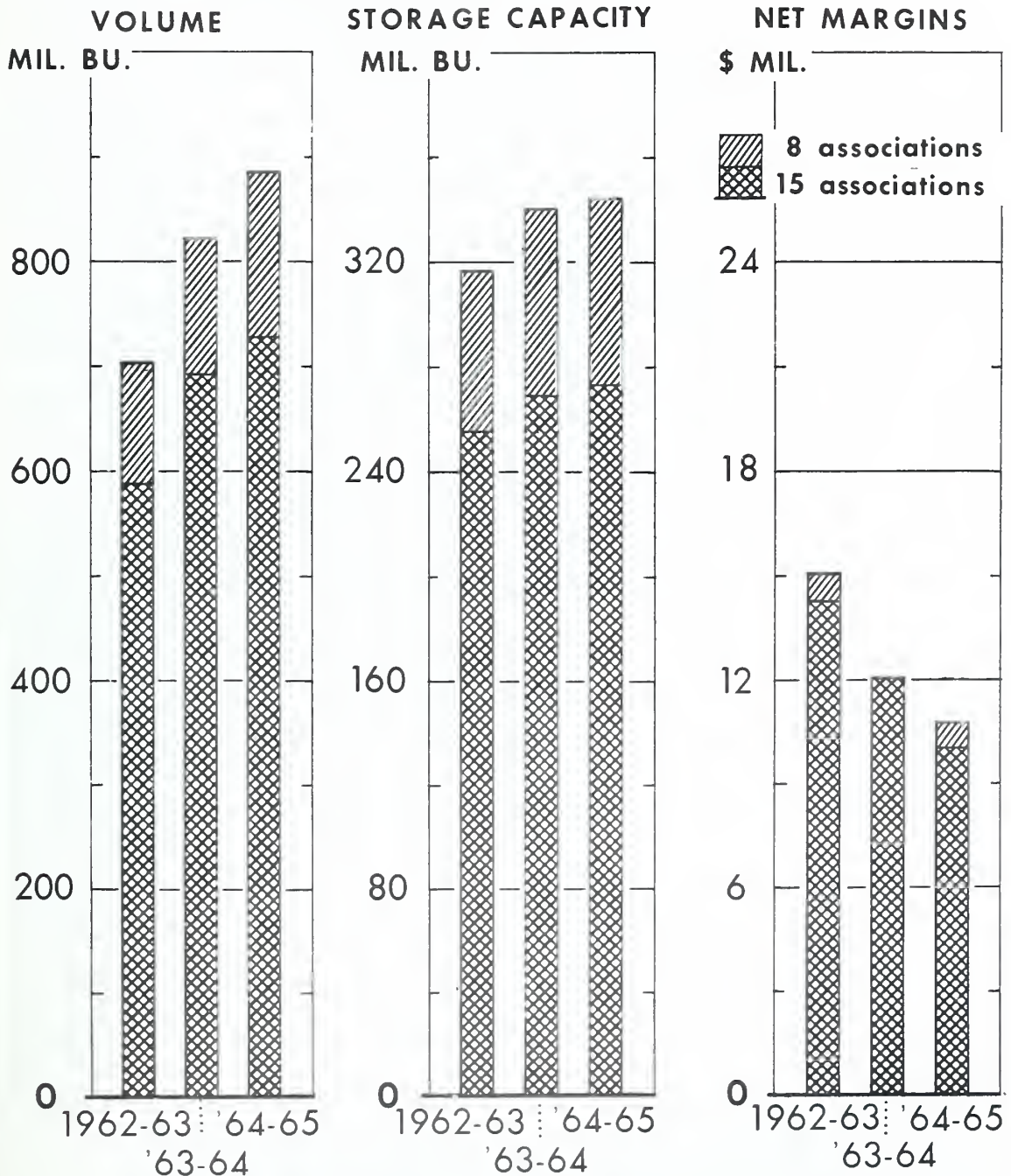


Figure 9

COMBINED VOLUME, STORAGE CAPACITY, AND NET MARGINS OF 23 REGIONAL GRAIN COOPERATIVES



Liabilities increased a little more than the total assets which resulted in a small decrease in member equities. Member equities amounted to \$167 million in 1965 which may be compared with \$136 million in 1959, an increase of 23 percent.

The eight organizations merchandised nearly 162 million bushels of grain in 1964-65, up nearly 17 percent from the 130 million bushel volume in 1963-64. Volume for the 23 associations in 1964-65 was 888 million bushels compared to 822 million in 1963-64 and 704 million in 1962-63 (figure 9).

Again this year, we obtained volume data by kind of grain. The 23 regional cooperatives handled about 861 million bushels of the 8 major grains and oilseeds (wheat, corn, oats, barley, soybeans, sorghum, flax, and rye). This 861 million bushels is equal to 19 percent of the total off-farm sales of these grains in the United States from the 1964 crop (figure 10). These cooperatives handled 45 percent of the flax, 26 percent of the wheat, 25 percent of the soybean, 17 percent of the sorghum, 14 percent of the corn, and on down to 8 percent of the oats.

Some organizations handled other kinds of grain in addition to those mentioned. This volume of nearly 28 million bushels was composed of beans, peas, rice, millet, and buckwheat. This plus the major grains above makes a total volume of nearly 889 million bushels.

Wheat was, by far, the largest volume grain handled by these 23 cooperatives--36 percent of the total (figure 11). Corn was next at 28 percent and soybeans at 19 percent. There was considerable difference in kind of grain handled by the original 15 associations and the 8 that were organized later. Location with respect to producing areas is important here.

Two of the regionals handled in excess of 100 million bushels each and 6 others had volumes in excess of 50 million bushels.

Figure 10

PROPORTION OF TOTAL OF OFF-FARM GRAIN SALES HANDLED BY 23 REGIONAL GRAIN COOPERATIVES

Percent by Kind of Grain, 1964-65

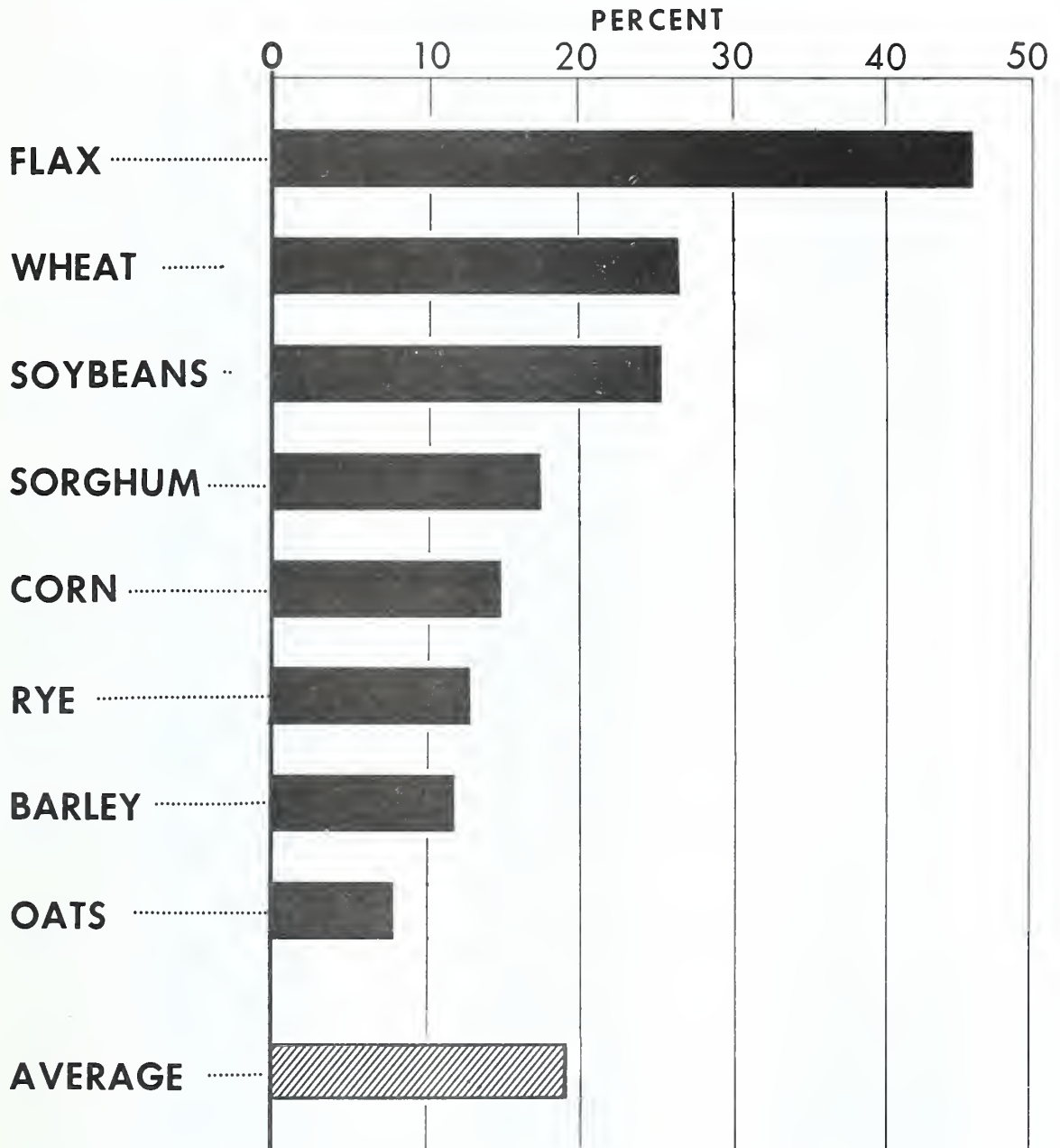
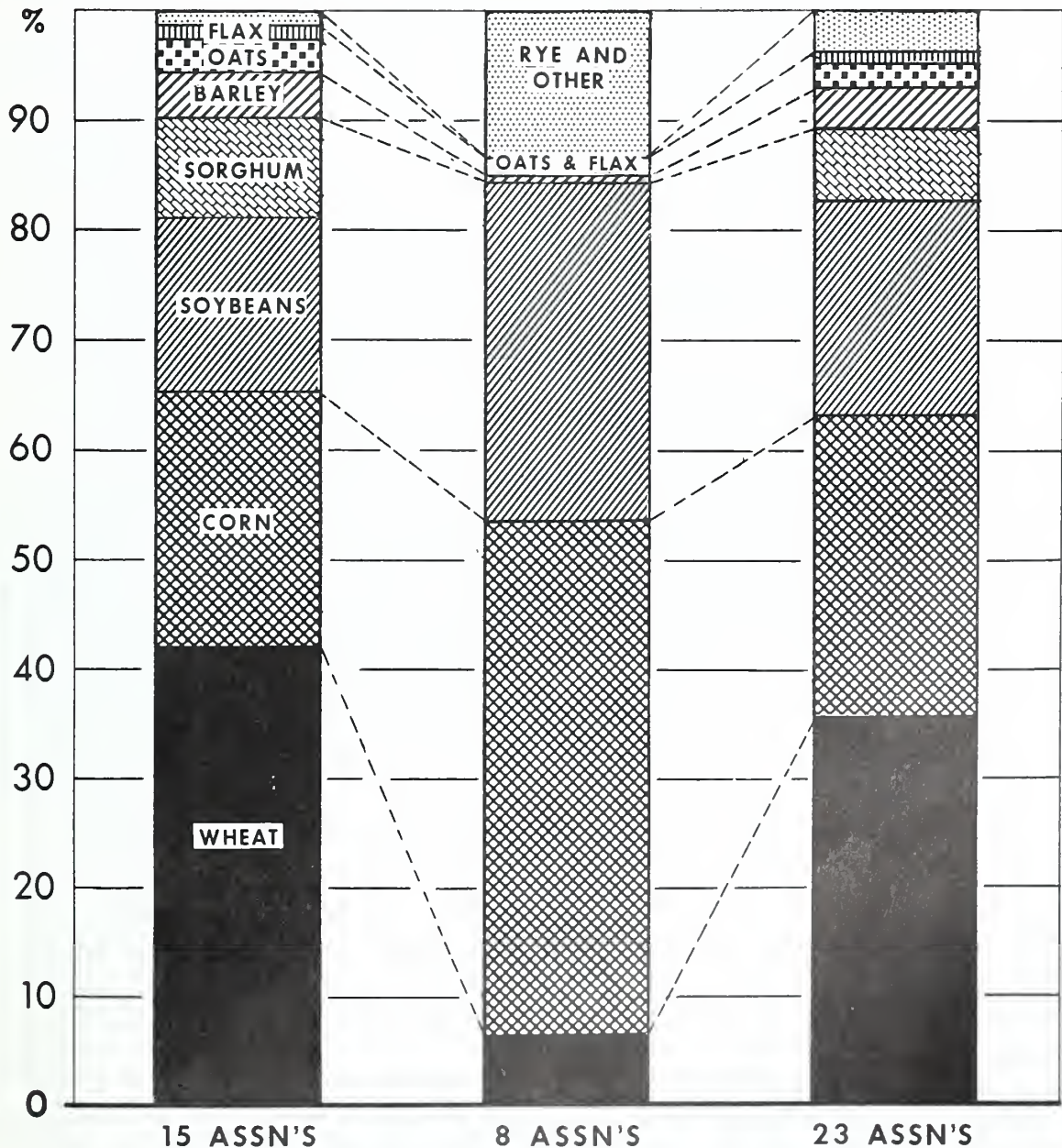


Figure 11

KIND OF GRAIN AS A PERCENT OF TOTAL VOLUME HANDLED BY 23 REGIONAL GRAIN COOPERATIVES, 1964-65



The combined net margins for the eight associations were small since one of them lost money and some operate on a pool basis and show no earnings. Total margins for the 23 organizations were nearly \$10.7 million or 1.2 cents a bushel in 1964-65, compared to 1.5 cents in 1963-64, and 2.1 cents in 1962-63.

The data in this report do not include information on Producers Export Company, Mid-States Terminals, Kansas City Terminal Elevator, and St. Louis Grain Corporation. These four cooperatives operate in excess of 10 million bushels of storage capacity, had assets of nearly \$19 million at the end of their last fiscal year, and had volume of over 100 million bushels of grain. Since existing regionals own these four cooperatives, the inclusion of their data would be duplication to a great extent.

As a group, the regional grain cooperatives have grown rapidly, are in sound financial condition, and operate efficiently. Through these organizations, farmers have increased their bargaining strength at the local, terminal, and national levels. Quality has been emphasized by paying premiums for approved varieties and protein content. Marketing margins have been reduced and marketing practices improved through the competition furnished by these organizations.

Management of these associations still face many important problems. Day-to-day price changes and crop conditions affect operations. Transportation, including type of equipment as well as the changing rate structure, is vitally important. Government programs and policies and technological changes in farming and in the market structure change and affect volume and operations. With ever increasing exports, world markets and conditions are increasingly important in the operations of these cooperatives.

Many costs have been rising and do not decline in proportion to volume decreases. This increases unit operating costs. Quality maintenance or improvement is being stressed more and more. New or additional services must be performed to meet member requirements.

The managers and directors of these regionals have demonstrated their ability to deal with problems during the years, as evidenced by their growth. The experience gained should enable them to anticipate and meet future problems as they arise.

